



# GALIEN TOWNSHIP SCHOOLS

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## FINANCIAL REPORT WITH SUPPLEMENTAL INFORMATION

June 30, 2008

## **BOARD OF EDUCATION**

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## **Independent Auditor's Report**

To the Board of Education  
Galien Township Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galien Township Schools (the "School District"), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Galien Township Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Galien Township Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2008, on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 11 and page 31 and 32 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Galien Township Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads 'Schaffer &amp; Layher' in a cursive script.

Schaffer & Layher  
September 26, 2008

David Schaffer, CPA  
Michael Layher, CPA  
Founding Partners:  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of Galien Township Schools:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galien Township Schools as of and for the year ended June 30, 2008, which collectively comprise Galien Township Schools' basic financial statements and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Galien Township Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Galien Township Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Galien Township Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described at 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described at 2008-1 and 2008-2 are a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Galien Township Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Galien Township Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Galien Township Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads 'Schaffer &amp; Layher' in a cursive script.

Schaffer & Layher  
September 26, 2008

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

**Schedule of Findings and Responses**

The following findings have been identified as significant deficiencies:

**Finding 2008-1**Financial Reporting Process

Personnel responsible for financial reporting have time and monetary constraints that require assistance in preparing the financial statements and related footnotes. The staff of the School District does understand all information included in the annual financial statements, but obtains assistance in the preparation. Internal controls should be in place to provide reasonable assurance to the School District that management prepare, monitor, and report annual financial activity without auditor intervention. The effect of this condition places a reliance on the independent auditor to be part of the School District's internal controls over financial reporting. The School District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Management Response

We are aware of this deficiency, however, given the state of educational funding, it is not cost beneficial for us to develop these processes. We will re-evaluate if additional funding becomes available. We will continue to rely on our independent auditors for such technical assistance.

**Finding 2008-2**Segregation of Duties

The School District lacks an appropriate segregation of incompatible duties with appropriate control objectives. We understand this is primarily due to financial constraints.

Management Response

We are aware of this deficiency; however, given the size of our entity and our available resources, it is difficult to provide for appropriate segregation of incompatible duties for all accounting functions. However, we will evaluate available options to administer limited segregation of duties for key accounting functions given our current resources.

Galien Township Schools, a K-8 and alternative education School District located in Berrien County, Michigan, follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2008 of the management of Galien Township Schools (the "School District").

Generally accepted accounting principles ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

### **Fund Financial Statements**

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the School District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds and the School Service Fund which is comprised of the Food Service Fund.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### **District Wide Financial Statements**

The District wide financial statements are full accrual basis statements. They report all of the School District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the School District are reported in the Statement of Net Assets of the District wide financial statements.

### **The School District as Trustee — Reporting the School District's Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These are excluded activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.



**Summary of Net Assets**

The School District had \$(34,372) in net assets as of June 30, 2008. The net assets of the School District are summarized in the table below:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Assets:</b>		
Cash and investments	\$ 883,836	\$ 968,706
Due from other governmental units	239,132	235,708
Net capital assets	1,679,493	1,896,373
Other assets	827	11,645
<b>Total Assets</b>	<u>\$ 2,803,288</u>	<u>\$ 3,112,432</u>
<b>Liabilities:</b>		
Accounts payable and other accrued liabilities	\$ 198,614	\$ 194,672
Notes and bonds payable	2,625,393	2,789,285
Other liabilities	13,653	-
<b>Total Liabilities</b>	<u>\$ 2,837,660</u>	<u>\$ 2,983,957</u>
<b>Net Assets:</b>		
Investment in capital assets - net of related debt	\$ (945,900)	\$ (892,912)
Restricted for:		
Debt service	355,100	388,724
Other	5,225	14,278
Unrestricted	551,203	618,385
<b>Total Net Assets</b>	<u>\$ (34,372)</u>	<u>\$ 128,475</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,803,288</u>	<u>\$ 3,112,432</u>

**Analysis of Financial Position**

During fiscal year ended June 30, 2008, the District's net assets decreased by \$162,847. A few of the significant factors affecting net assets during the year are discussed below:

**A. General Fund Operations**

The School District's expenditures from General Fund operations exceeded revenues by \$79,091 for the fiscal year ended June 30, 2008. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

**B. Debt Payments**

The School District made principal payments on bonded, long term debt obligations which reduced the amount of the School District's long term liabilities. Principal payments made during the year ended June 30, 2008 totaled \$163,893. This reduced the 2005 refunding, 2001 and 1999 School Improvement, and Durant Bonds by (\$155,000), and notes payable by (\$8,893).

**Analysis of Financial Position, Concluded****C. Net Investment in Capital Assets**

The School District's net investments in capital assets have decreased by \$216,880. The net activity for the year is summarized in the following table:

	Balance				Balance	
	July 1, 2007		Additions		Deletions	June 30, 2008
Capital Assets	\$ 6,469,449	\$	-	\$	-	\$ 6,469,449
Less: accumulated depreciation	(4,573,076)		(216,880)		-	(4,789,956)
Net investment capital outlay	<u>\$ 1,896,373</u>	<u>\$</u>	<u>(216,880)</u>	<u>\$</u>	<u>-</u>	<u>\$ 1,679,493</u>

This year, the School District had no current year additions. Due to anticipated deficits, the School District does not expect or have planned any capital projects for the 2008-2009 fiscal years. The School District does not own any infrastructure assets.

- D. In 1999, Galien Township School voters approved a \$2,920,000, general obligation bond issue. The proceeds from the original 1999 bond issue were used for renovating the high school and partially remodeling existing school facilities, and equipping facilities. In prior years, \$2,325,000 of these bonds were defeased through new refunding and placing the proceeds in an irrevocable trust to provide for future debt service payments. (See below).

In 2001, the District received \$500,000 from Q.Z.A.B. issues for new capital equipment purchases and remodeling of the existing school facilities.

During fiscal year 2005, the School District issued \$2,310,000 of unlimited tax refunding bonds to provide resources to place in escrow for the purpose of generating resources for future debt service payments of \$2,325,000.

**Results of Operations**

The District-wide results of operations for the fiscal years ended June 30 are summarized in the table below:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Revenues:</b>		
General Revenues:		
Property taxes levied for general operations	\$ 262,190	\$ 233,198
Property taxes levied for debt service	215,488	207,235
State of Michigan unrestricted foundation aid	1,242,865	1,262,344
Other general revenues	13,120	12,693
Earnings on investments	32,633	48,288
Total general revenues	<u>\$ 1,766,296</u>	<u>\$ 1,763,758</u>
Operating Grants:		
Federal	\$ 130,818	\$ 109,968
State of Michigan	43,827	43,171
Interdistrict sources	32,114	68,016
Total operating grants	<u>\$ 206,759</u>	<u>\$ 221,155</u>
Charges for Services:		
Food service	\$ 18,590	\$ 21,227
Other charges for services	-	-
Total charges for services	<u>\$ 18,590</u>	<u>\$ 21,227</u>
Total revenues	<u>\$ 1,991,645</u>	<u>\$ 2,006,140</u>
<b>Expenses:</b>		
Instruction	\$ 1,052,180	\$ 1,144,857
Pupil services	36,206	34,427
Support services	657,914	649,600
Food service	82,866	85,096
Interest on long-term debt	108,446	114,910
Depreciation	216,880	218,219
Total expenses	<u>\$ 2,154,492</u>	<u>\$ 2,247,109</u>
<b>Change in Net Assets</b>	<u>\$ (162,847)</u>	<u>\$ (240,969)</u>
<b>Beginning Net Assets</b>	<u>128,475</u>	<u>369,444</u>
<b>Ending Net Assets</b>	<u><u>\$ (34,372)</u></u>	<u><u>\$ 128,475</u></u>

**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,
2. Student Enrollment - Blended at 75 percent of current year fall count and 25 percent of prior year winter count, and
3. The District's non-homestead levy.

**Per Student Foundation Allowance**

Annually, the State of Michigan sets the per student foundation allowance. The Galien Township Schools' net foundation allowance for the fiscal year 2008 was \$7,204 per student. This amount was increased over the District's 2006-2007 foundation allowance of \$7,085 per student.

**Student Enrollment**

The District's student enrollment for the fall count of 2007-2008 was 185.84 students. The District's enrollment decreased from the prior year count by 2.50 students. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student F.T.E.</u>	<u>F.T.E. Change from Prior Year</u>
2007-2008	185.84	(2.50)
2006-2007	188.34	(35.27)
2005-2006	223.61	49.11
2004-2005	174.50	(135.00)
2003-2004	309.50	(8.50)

Subsequent to fiscal year end June 30, 2008; preliminary student enrollments for 2008-2009 indicate that enrollments will decrease from the 2007-2008 fiscal year.

**B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)**

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2007-2008 fiscal year was \$262,190. The non-homestead tax levy has increased by 12.40 percent over the prior year.

**B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), Concluded**

The following summarizes the School District's non-homestead levy over the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Levy</u>	<u>% Change from Prior Year</u>
2007-2008	\$ 262,190	12.40%
2006-2007	\$ 233,198	9.58%
2005-2006	\$ 212,799	-3.35%
2004-2005	\$ 220,175	7.09%
2003-2004	\$ 205,593	4.60%
Average Increase		6.06%

**C. Debt Fund Property**

The School District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2007-2008, the School District's debt millage levy was 3.47 mills that generated a levy of \$215,488.

**D. Food Sales to Students & Adults (School Lunch Program)**

The School District's food and milk sales, to students and adults, and other revenues, continue to decline with decreasing student counts. Neither school lunch or milk prices were increased during the year.

The total revenues from Food Service operations exceeded total expenditures for the year by \$1,706 before transfers.

**E. General Fund Expenditures Budget vs. Actual Five Year History**

<u>Fiscal Year</u>	<u>Expenditures Preliminary Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditure Final Audit</u>	<u>Final Audit as a % of Prelim. Budget</u>	<u>Final Audit as a % of Final Budget</u>
2007-2008	\$ 1,844,487	\$ 1,858,528	\$ 1,777,297	96.36%	95.63%
2006-2007	\$ 1,928,616	\$ 1,909,761	\$ 1,868,867	96.90%	97.86%
2005-2006	1,914,020	2,002,430	1,946,743	101.71%	97.22%
2004-2005	1,995,866	1,904,839	1,857,518	93.07%	97.52%
2003-2004	3,042,662	2,966,010	2,951,277	97.00%	99.50%
Five Year Average				97.01%	97.55%

**F. General Fund Revenues Budget vs. Actual Five Year History**

Fiscal Year	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Final Audit as a % of Prelim. Budget	Final Audit as a % of Final Budget
2007-2008	\$ 1,498,541	\$ 1,681,675	\$ 1,698,206	113.32%	100.98%
2006-2007	1,620,665	1,704,733	1,713,176	105.71%	100.50%
2005-2006	1,868,202	2,036,998	2,044,874	109.46%	100.39%
2004-2005	1,802,126	2,271,191	2,264,407	125.65%	99.70%
2003-2004	2,419,022	2,472,047	2,537,257	104.89%	102.64%
		Five Year Average		111.81%	100.84%

**G. Original vs. Final Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Galien Township Schools amends its budget during the school year. For fiscal year June 30, 2008, the budget was amended in November of 2007 and in June of 2008. The June 2008 budget amendment was the final budget for the fiscal year.

Change from Original Budget:

General Fund Revenues:

Total Revenues Original Budget	\$ 1,498,541	100.00%
Total Revenues Final Amended Budget	1,681,675	101.12%
	<u>\$ (183,134)</u>	<u>(1.12)%</u>

The School District's actual general fund revenues differed from the final budget by \$16,531, a variance of 1.19%.

The final revenue budget reflects the following changes from the original budget:

- The District received more State Source monies than originally budgeted, due to recalculation of student counts.

Change from Original Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$ 1,844,487	100.00%
Total Expenditures Final Amended Budget	1,858,528	100.76%
	<u>\$ (14,041)</u>	<u>(0.76)%</u>

**G. Original vs. Final Budget, concluded**

The final expenditures budget reflects the following changes from the original budget:

- Certain expenditures and other costs were higher than originally budgeted.
- The final actual expenditures were 4.27% below the final budget for the year.

**H. Expected Future Results**

Due to declining enrollment over the last decade, the School District will continue to suspend the offering of classes for grades 9 through 12 for the 2008-2009 school year. The School District will continue to offer preschool and grades kindergarten through 8, as well as, an alternative education program for grades 7 through 12 in the 2008-2009 school year.

The Board of Education continues to explore options for the continuation of the School District beyond 2008-2009.

**I. Contacting the School District's Financial Management**

The financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have questions about this report or need additional information, please contact the Business Office at Galien Township Schools.

	<b>Governmental Activities</b>
<b>Assets</b>	
<b>Current assets:</b>	
Cash and investments	\$ 883,836
Receivables	100
Due from other governmental units	239,032
Prepaid expenses	-
Inventories	827
Total current assets	<u>\$ 1,123,795</u>
<b>Noncurrent assets:</b>	
Capital assets	\$ 6,469,449
Less: accumulated depreciation	(4,789,956)
Total noncurrent assets	<u>\$ 1,679,493</u>
<b>Total Assets</b>	<u><u>\$ 2,803,288</u></u>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 8,376
Accrued payroll and other liabilities	190,238
Due to other governmental activities	13,653
Notes and bonds payable, due within one year	174,127
Total current liabilities	<u>\$ 386,394</u>
<b>Noncurrent liabilities:</b>	
Notes and bonds payable, due in more than one year	2,451,266
<b>Total Liabilities</b>	<u>\$ 2,837,660</u>
<b>Commitments and Contingencies</b>	
<b>Net Assets</b>	
Investment in capital assets - net of related debt	\$ (945,900)
Restricted for:	
Debt service	355,100
Other	5,225
Unrestricted	551,203
<b>Total Net Assets</b>	<u>\$ (34,372)</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,803,288</u></u>

*See accompanying notes to the financial statements.*



Functions/Programs	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government -				
Governmental activities:				
Instruction	\$ 1,052,180	\$ -	\$ 130,818	\$ (921,362)
Pupil services	36,206	-	-	(36,206)
Support services	657,914	-	32,114	(625,800)
Food services	82,866	18,590	43,827	(20,449)
Interest on long-term debt	108,446	-	-	(108,446)
Depreciation (unallocated)	216,880	-	-	(216,880)
	<u>\$ 2,154,492</u>	<u>\$ 18,590</u>	<u>\$ 206,759</u>	<u>\$ (1,929,143)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 262,190
Property taxes, levied for debt purposes				215,488
State aid not restricted to specific purposes				1,242,865
Interest and investment earnings				32,633
Other				<u>13,120</u>
Total general revenues				<u>\$ 1,766,296</u>
Change in Net Assets				\$ (162,847)
Net Assets - beginning of year				<u>128,475</u>
Net Assets - end of year				<u>\$ (34,372)</u>

See accompanying notes to the financial statements.

**GALIEN TOWNSHIP SCHOOLS**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<b>General</b>	<b>2001 School Improvement Bonds-Debt Retirement Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Assets</b>				
Cash and investments	\$ 524,848	\$ 286,161	\$ 72,827	\$ 883,836
Receivables	100	-	-	100
Due from other governmental units	238,522	-	510	239,032
Prepaid expenses	-	-	-	-
Inventories	-	-	827	827
<b>Total Assets</b>	<b>\$ 763,470</b>	<b>\$ 286,161</b>	<b>\$ 74,164</b>	<b>\$ 1,123,795</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 8,376	\$ -	\$ -	\$ 8,376
Accrued salaries and withholdings	172,238	-	-	172,238
Due to other governmental units	13,653	-	-	13,653
Due to other governmental funds	-	-	-	-
<b>Total Liabilities</b>	<b>\$ 194,267</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 194,267</b>
<b>Fund Balance</b>				
Reserved for inventories	\$ -	\$ -	\$ 827	\$ 827
Reserved for prepaid expenses	-	-	-	-
Reserved for debt service	-	286,161	68,939	355,100
Designated	360,963	-	-	360,963
Unreserved and undesignated	208,240	-	-	208,240
Unreserved and undesignated - food service	-	-	4,398	4,398
<b>Total Fund Balance</b>	<b>\$ 569,203</b>	<b>\$ 286,161</b>	<b>\$ 74,164</b>	<b>\$ 929,528</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 763,470</b>	<b>\$ 286,161</b>	<b>\$ 74,164</b>	<b>\$ 1,123,795</b>

*See accompanying notes to the financial statements.*

**GALIEN TOWNSHIP SCHOOLS****RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS  
JUNE 30, 2008**

**Total Fund Balances - Governmental Funds** **\$ 929,528**

Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds.

Cost of the capital assets	6,469,449
Accumulated depreciation	(4,789,956)

Long-term liabilities are not due and payable in the current period  
and are not reported in the funds:

Bonds payable	(2,625,393)
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Accrued interest payable is not included as a liability in  
governmental activities

	<u>(18,000)</u>
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**Total Net Assets-Governmental Activities** **\$ (34,372)**

*See accompanying notes to the financial statements.*

**GALIEN TOWNSHIP SCHOOLS**

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	<b>General</b>	<b>2001 School Improvement Bonds-Debt Retirement Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenues</b>				
Property taxes	\$ 262,190	\$ -	\$ 215,488	\$ 477,678
Local sources	13,120	-	18,590	31,710
State sources	1,242,865	-	3,965	1,246,830
Federal sources	130,818	-	39,862	170,680
Interdistrict sources	32,114	-	-	32,114
Earnings on investments	17,099	12,942	2,592	32,633
<b>Total Revenues</b>	<b>\$ 1,698,206</b>	<b>\$ 12,942</b>	<b>\$ 280,497</b>	<b>\$ 1,991,645</b>
<b>Expenditures</b>				
Current:				
Instruction	\$ 1,052,180	\$ -	\$ -	\$ 1,052,180
Pupil services	36,206	-	-	36,206
Supporting services	628,702	-	82,866	711,568
Debt service:				
Principal on long term-debt	8,893	40,000	115,000	163,893
Interest and fees on long-term debt	104	540	108,951	109,595
Intergovernmental payments	29,212	-	-	29,212
<b>Total Expenditures</b>	<b>\$ 1,755,297</b>	<b>\$ 40,540</b>	<b>\$ 306,817</b>	<b>\$ 2,102,654</b>
<b>Deficiency of Revenues under Expenditures</b>	<b>\$ (57,091)</b>	<b>\$ (27,598)</b>	<b>\$ (26,320)</b>	<b>\$ (111,009)</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	\$ -	\$ -	\$ 22,000	\$ 22,000
Operating transfers out	(22,000)	-	-	(22,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (22,000)</b>	<b>\$ -</b>	<b>\$ 22,000</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ (79,091)</b>	<b>\$ (27,598)</b>	<b>\$ (4,320)</b>	<b>\$ (111,009)</b>
<b>Fund Balances - Beginning of year</b>	<b>648,294</b>	<b>313,759</b>	<b>78,484</b>	<b>1,040,537</b>
<b>Fund Balances - End of year</b>	<b>\$ 569,203</b>	<b>\$ 286,161</b>	<b>\$ 74,164</b>	<b>\$ 929,528</b>

See accompanying notes to the financial statements.

**GALIEN TOWNSHIP SCHOOLS**

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RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

**Net change in fund balances - Total Governmental Funds** \$ (111,009)

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlays as expenditures;  
in the statement of activities, these costs are allocated  
over their estimated useful lives as depreciation.

Depreciation expense (216,880)

Capital outlay -

Net change in capital assets \$ (216,880)

Repayment of bond principal is an expenditure in the governmental  
funds, but not in the statement of activities (where it reduces long-term debt) \$ 163,893

Accrued interest is recorded in the statement of activities when incurred;  
it is not reported in governmental funds until paid. \$ 1,149

**Change in net assets - Governmental Activities** \$ (162,847)

*See accompanying notes to the financial statements.*

**GALIEN TOWNSHIP SCHOOLS**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008

	Private-Purpose <u>Trusts</u>	Agency Fund <u>Student Activities</u>	Total <u>Fiduciary Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ -	\$ 13,775	\$ 13,775
Investments	32,852	-	32,852
<b>Total Assets</b>	<u>\$ 32,852</u>	<u>\$ 13,775</u>	<u>\$ 46,627</u>
<b>Liabilities:</b>			
Due to student groups	\$ -	\$ 13,775	\$ 13,775
<b>Net Assets:</b>			
Held in trust for other purposes	\$ 32,852		\$ 32,852
<b>Total Liabilities and Net Assets</b>	<u>\$ 32,852</u>		<u>\$ 46,627</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

	Private-Purpose <u>Trusts</u>
<b>Additions:</b>	
Interest and investment earnings	\$ 1,117
<b>Deductions:</b>	
Scholarships awarded	-
<b>Change in net assets</b>	\$ 1,117
<b>Net assets-beginning of year</b>	31,735
<b>Net assets-end of year</b>	<u>\$ 32,852</u>

*See accompanying notes to the financial statements.*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Galien Township Schools (the “School District”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

**District-Wide and Fund Financial Statements**

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**District-Wide Statements** — The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**District-Wide Statements (concluded)** — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

**Fund Based Statements** — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**The General Fund** is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**2001 School Improvement Bonds-Debt Retirement Fund** is the School District's debt retirement fund. It accounts for resources and expenditures relating to the repayment of the bond issue.

Additionally, the government reports the following fund types:

**Debt Service Funds** are the funds used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and other related costs.

**The School Service Funds** are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District is the Food Services Fund.



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Fiduciary Funds** are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Student Activity (Agency Fund)** — The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students.

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** — Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** — In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

**Property Taxes** - Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For Galien Township Schools’ taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

**State Aid** - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Inventories** — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Assets, Liabilities, and Net Assets or Equity (Continued)**

**Prepaid Items** — Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** — Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

**Compensated Absences** — The liability for compensated absences, if any, reported in the district-wide statements consists of unpaid, accumulated annual and vacation balances. The liability is calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability for compensated absences at June 30, 2008.

**Long-Term Obligations** — In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change. Board designated funds consist of the following:

Budgeted deficit for the 2008/2009 year - \$360,963

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)****Assets, Liabilities, and Net Assets or Equity (Concluded)**

**Comparative Data** — Comparative data is not included in the School District's financial statements.

**Accounting** — The School District follows the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"), and accordingly, the School District's financial statements present the following:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the School District's overall financial position and results of operations has been included.

District-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the School District's activities have been provided.

**Estimates** — The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and other major funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were two amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of yearend; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at June 30, 2008.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONCLUDED)**

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School District had expenditures that exceeded appropriations in the following major budgeted functions:

*General Fund:*

<u>Function</u>	Final <u>Budget</u>	Final <u>Actual</u>	<u>Variance</u>
Instruction-Alternative High School	\$ 266,036	\$ 267,993	\$ (1,957)
Instruction-Preschool	69,926	73,566	(3,640)
Instruction-Special Education	105,258	105,615	(357)
Instruction-Compensatory Education	172,558	172,710	(152)
Supporting services-Library	6,774	9,610	(2,836)
Supporting services-Preschool	4,874	5,139	(265)
Supporting services-Board of Education	32,574	33,287	(713)
Supporting services-Executive	74,358	74,534	(176)
Supporting services-Principal	85,714	85,837	(123)
Supporting services-Pupil transportation	108,486	111,173	(2,687)
Intergovernmental payments	28,747	29,212	(465)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess had no impact on the financial results of the School District.

**NOTE 3. DEPOSITS AND INVESTMENTS**

As of June 30, 2008, the School District deposits and investments include the following:

	<i>Governmental Funds</i>			
	Cash and Cash Equivalents	Investments	Total	Fiduciary Funds
Cash on hand	\$ 250	\$ -	\$ 250	\$ -
Deposits	500,910	-	500,910	13,775
Investments	-	382,676	382,676	32,852
	<u>\$ 501,160</u>	<u>\$ 382,676</u>	<u>\$ 883,836</u>	<u>\$ 46,627</u>

**Bank Deposits:**

All cash of the School District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

**Custodial Credit Risk—Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. Currently, none of the School District's bank balance was exposed to custodial credit risk, because it was uninsured or uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

**NOTE 3. DEPOSITS AND INVESTMENTS (CONCLUDED)****Investments:**

Michigan law permits investments in: 1) Bonds and other obligations of the United States Government, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker's acceptance of the United States Bank, and 6) Certain mutual funds. The School District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

Investment Type	Fair Value	Current	1 - 5 years	Investment Maturities	
				6 - 10 years	More than 10
Investment Pools	\$ 382,677	\$ 382,677	\$ -	\$ -	\$ -

**Interest Rate Risk:** In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**Credit Risk:** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations ("NRSRO's"). As of June 30, 2008, the School District's investment in the investment pool was rated AAAm by Standard & Poor's.

**Concentration of Credit Risk:** The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the School District's investments are in investment pools which represent 100% of the School District's total investments.

**Custodial Credit Risk—Investments:** For an Investment, this is the risk that in the event of bank failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in the investment pool of \$382,677, the School District has a custodial credit risk exposure of \$382,677, because the related securities are uninsured, unregistered, and held by the School District's brokerage firm which is also the counterparty for these particular securities.

**NOTE 4. RECEIVABLES AND PAYABLES**

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$ 238,522	\$ 510	\$ 239,032
Trade	100	-	100
	<u>\$ 238,622</u>	<u>\$ 510</u>	<u>\$ 239,132</u>

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Payables:			
Trade	\$ 8,373	\$ -	\$ 8,373

**NOTE 5. CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated:				
Land	\$ 34,000	\$ -	\$ -	\$ 34,000
Capital assets being depreciated:				
Building and building improvements	\$ 5,285,557	\$ -	\$ -	\$ 5,285,557
Land improvements	270,165	-	-	270,165
Buses and other vehicles	292,571	-	-	292,571
Furniture and equipment	587,156	-	-	587,156
Subtotal	<u>\$ 6,435,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,435,449</u>
Accumulated depreciation:				
Building and building improvements	\$ 3,626,790	\$ 165,288	\$ -	\$ 3,792,078
Land improvements	268,436	1,729	-	270,165
Buses and other vehicles	198,228	29,348	-	227,576
Furniture and equipment	479,622	20,515	-	500,137
Subtotal	<u>\$ 4,573,076</u>	<u>\$ 216,880</u>	<u>\$ -</u>	<u>\$ 4,789,956</u>
Net capital assets being depreciated	<u>\$ 1,862,373</u>			<u>\$ 1,645,493</u>
Net capital assets	<u>\$ 1,896,373</u>			<u>\$ 1,679,493</u>

Depreciation expense of \$216,880 was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

**NOTE 6. LONG-TERM DEBT**

The School District issues unlimited tax bonds, notes, and other contractual commitments for the governmental activities to provide funds for the acquisition and construction of major capital facilities and purchase of certain equipment. Unlimited tax bonds are direct obligations and pledge the full faith and credit of the School District. Bonded indebtedness of the School District is reflected in the district-wide financial statements. Current requirements for principal and interest expenditures are payable solely from future revenues of the debt service funds, which consist principally of property taxes collected by the School District and investment earnings.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Proceeds	Payments/ Refunded	Ending Balance	Due Within One Year
<i><b>Governmental Activities:</b></i>					
Bonds	\$ 2,780,393	\$ -	\$ (155,000)	\$ 2,625,393	\$ 174,127
Notes Payable	8,893	-	(8,893)	-	-
Total bonds and notes payable	<u>\$ 2,789,286</u>	<u>\$ -</u>	<u>\$ (163,893)</u>	<u>\$ 2,625,393</u>	<u>\$ 174,127</u>
 Total Long-term debt and other	 <u>\$ 2,789,286</u>	 <u>\$ -</u>	 <u>\$ (163,893)</u>	 <u>\$ 2,625,393</u>	 <u>\$ 174,127</u>

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i><b>Governmental Activities:</b></i>		
	Principal	Interest	Total
6/30/2009	\$ 174,127	\$ 104,641	\$ 278,768
6/30/2010	184,323	98,234	282,557
6/30/2011	202,228	93,744	295,972
6/30/2012	204,744	83,313	288,057
6/30/2013	209,971	75,087	285,058
6/30/2014 to 6/30/2018	985,000	253,400	1,238,400
6/30/2019 to 6/30/2021	<u>665,000</u>	<u>54,930</u>	<u>719,930</u>
	<u>\$ 2,625,393</u>	<u>\$ 763,349</u>	<u>\$ 3,388,742</u>

Interest expense of \$103,258 was not charged to activities as the School District considers its debt and related assets to impact multiple activities and allocation was not practical.

**NOTE 6. LONG-TERM DEBT (CONTINUED)*****Governmental Activities:****General obligation bonds consist of:*

\$74,153-1998 School Improvement Bonds(durant non-plaintiff); payable in annual installments of \$5,207 to \$15,662; interest at 3.5% to 5.25%; due 5/15/2013. \$ 30,393

\$500,000-2001 School Improvement Bonds(QZAB); payable in annual installments of \$35,000 to \$45,000; interest at 0%; due 4/12/2014. 240,000

\$2,310,000-2005 School Refunding Bonds; payable in annual installments of \$20,000 to \$180,000; interest from 3.00% to 5.00%; due 5/1/2019. 2,250,000

\$2,920,000-1999 Building & Site Bonds; payable in annual installments of \$60,000 to \$260,000; interest from 4.0% to 5.375%; due 5/1/2019. 105,000

**Total bonds payable** \$ 2,625,393

*Notes Payable:*

\$57,788-Chemical Bank Shoreline Note; payable in monthly installments of \$1,050.19 including interest at 3.39%; due 12/01/2007; secured by a bus. \$ -

\$24,570-Chemical Bank Shoreline Not; payable in monthly installments of \$446.52 including interest at 3.39%; due 12/01/2007; secured by a bus. -

**Total notes payable** \$ -

**Total long-term debt** \$ 2,625,393

**Durant Non-Plaintiff Bond** - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$5,207 to \$15,662 associated with this Bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any School District debt levy or utilization of any other financial resources of the School District.

**Advance Refunding** – In the prior years, the School District defeased certain unlimited tax school improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for defeased bonds are not included in the School District's financial statements. In prior years, \$2,325,000 of bonds considered defeased are still outstanding. During fiscal 2005, the School District issued \$2,310,000 of unlimited tax refunding bonds plus premium on capital appreciation bonds to provide resources to place in escrow account for the purpose of generating resources for



**NOTE 6. LONG-TERM DEBT (CONCLUDED)**

future debt service payments of \$3,885,623 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements. The reacquisition price exceeded the net carrying amount of the refunded debt by \$24,907. This amount is being netted against the refunding debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next five (5) years by \$362,819 and resulted in an economic gain of \$239,637.

**NOTE 7. CAPITAL PROJECT BOND EXPENDITURES**

The capital project funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with applicable provisions of section 1351a of the revised school code.

**NOTE 8. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were \$134,607, \$152,960 and \$145,755, respectively.

**Post Employment Benefits** - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

**NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS***INTERFUND RECEIVABLES AND PAYABLES:*

The composition of interfund balances is as follows:

**Due To/From Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
No balances at 6/30/08 year-end.		\$ -
		<u>\$ -</u>

*INTERFUND TRANSFERS:*

The general fund transferred monies to the food service fund of \$22,000 to subsidize those activities.

**Interfund Transfers:**

<u>Transfer In:</u>	<u>Transfer Out:</u>	<u>Amount</u>
Other Governmental Funds-Food Service	General Fund	\$ 22,000

**Note 10. Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**Note 11.      Funding Uncertainties**

The School District receives over 72% of its funding for regular operations from the State of Michigan “foundation allowance.” The foundation allowance is determined by the State and paid on the basis of the number of students attending the School District on specific dates. The base per pupil allowance has only increased slightly over the past few years, while the School District has experienced significant declines in enrollment, which resulted in reductions in State revenue. In addition to these significant declines in revenue, the School District has been challenged by rising operating expenditures including healthcare, pension costs, and utilities. These matters all contribute to the continuing decline of the General Fund, fund balance.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon the continued operation of the School District, which in turn is dependent upon the School District’s ability to meet its financing requirements, and the success of its future operations. Management has various options, continue to offer alternative education, suspend supporting services such as transportation and food service, and discontinue all operations. Management believes that actions presently being taken to revise the School District’s operating and financial requirements provide the opportunity for the School District to continue as a going concern.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**GALIEN TOWNSHIP SCHOOLS**

REQUIRED SUPPLEMENTAL SCHEDULE  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
JUNE 30, 2008

	Original Budget	Final Amended Budget	Actual
<b>Revenues</b>			
Property taxes	\$ 250,589	\$ 255,963	\$ 262,190
Local sources	8,866	11,571	13,120
State sources	1,109,125	1,235,866	1,242,865
Federal sources	102,235	130,818	130,818
Interdistrict sources	17,726	30,349	32,114
Earnings on investments	10,000	17,108	17,099
<b>Total Revenues</b>	<b>\$ 1,498,541</b>	<b>\$ 1,681,675</b>	<b>\$ 1,698,206</b>
<b>Expenditures - Current</b>			
Instruction:			
Elementary	\$ 342,062	\$ 376,750	\$ 299,397
Middle School	154,314	132,901	132,899
Alternative High School	236,058	266,036	267,993
Preschool	78,453	69,926	73,566
Special Education	103,120	105,258	105,615
Compensatory Education	140,708	172,558	172,710
Pupil Services	34,627	34,627	36,206
Supporting services:			
Improvement of instruction	354	1,426	1,426
Library	7,185	6,774	9,610
Preschool	3,108	4,874	5,139
Compensatory Education	3,186	4,779	4,779
Board of education	33,184	32,574	33,287
Executive	75,714	74,358	74,534
Principal	59,188	85,714	85,837
Fiscal	66,281	64,842	63,460
Operations	332,531	256,901	239,457
Pupil transportation	114,901	108,486	111,173
Debt service:			
Principal on notes payable	8,890	8,893	8,893
Interest and fees on notes payable	90	104	104
Capital outlay	-	-	-
Intergovernmental payments	28,533	28,747	29,212
<b>Total Expenditures</b>	<b>\$ 1,822,487</b>	<b>\$ 1,836,528</b>	<b>\$ 1,755,297</b>
<b>Deficiency of Revenues under Expenditures</b>	<b>\$ (323,946)</b>	<b>\$ (154,853)</b>	<b>\$ (57,091)</b>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(22,000)	(22,000)	(22,000)
<b>Total other financing sources (uses)</b>	<b>\$ (22,000)</b>	<b>\$ (22,000)</b>	<b>\$ (22,000)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (345,946)</b>	<b>\$ (176,853)</b>	<b>\$ (79,091)</b>
<b>Fund Balances - Beginning of year</b>	<b>648,294</b>	<b>648,294</b>	<b>648,294</b>
<b>Fund Balances - End of year</b>	<b>\$ 302,348</b>	<b>\$ 471,441</b>	<b>\$ 569,203</b>

**GALIEN TOWNSHIP SCHOOLS**

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REQUIRED SUPPLEMENTAL SCHEDULE  
BUDGETARY COMPARISON SCHEDULE  
2001 SCHOOL IMPROVEMENT BONDS - DEBT RETIREMENT FUND  
JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Earnings on investments	9,000	12,263	12,942
<b>Total Revenues</b>	<u>\$ 9,000</u>	<u>\$ 12,263</u>	<u>\$ 12,942</u>
<b>Expenditures - Current</b>			
Debt service			
Principal on long-term debt	\$ 40,000	\$ 40,000	\$ 40,000
Interest and fees on long-term debt	272	540	540
<b>Total Expenditures</b>	<u>\$ 40,272</u>	<u>\$ 40,540</u>	<u>\$ 40,540</u>
<b>Deficit of Revenues under Expenditures</b>	<u>\$ (31,272)</u>	<u>\$ (28,277)</u>	<u>\$ (27,598)</u>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	-	-	-
<b>Total other financing sources (uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Net Change in Fund Balances</b>	<u>\$ (31,272)</u>	<u>\$ (28,277)</u>	<u>\$ (27,598)</u>
<b>Fund Balances - Beginning of year</b>	<u>313,759</u>	<u>336,519</u>	<u>313,759</u>
<b>Fund Balances - End of year</b>	<u><u>\$ 282,487</u></u>	<u><u>\$ 308,242</u></u>	<u><u>\$ 286,161</u></u>

**OTHER SUPPLEMENTAL  
INFORMATION**

**GALIEN TOWNSHIP SCHOOLS****COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS****JUNE 30, 2008**

	<b>Food Service Fund</b>	<b>1999 Building and Site Bonds - Debt Retirement</b>	<b>2005 School Refunding Bonds - Debt Retirement</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>				
Cash and investments	\$ 3,888	\$ 10,441	\$ 58,498	\$ 72,827
Due from other governmental units	510	-	-	510
Due from other governmental funds	-	-	-	-
Inventories	827	-	-	827
Prepaid expenditures	-	-	-	-
<b>Total Assets</b>	<b>\$ 5,225</b>	<b>\$ 10,441</b>	<b>\$ 58,498</b>	<b>\$ 74,164</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governmental funds	-	-	-	-
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance</b>				
Reserved for inventories	\$ 827	\$ -	\$ -	\$ 827
Reserved for debt retirement	-	10,441	58,498	68,939
Unreserved and undesignated - food service	4,398	-	-	4,398
<b>Total Fund Balance</b>	<b>\$ 5,225</b>	<b>\$ 10,441</b>	<b>\$ 58,498</b>	<b>\$ 74,164</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 5,225</b>	<b>\$ 10,441</b>	<b>\$ 58,498</b>	<b>\$ 74,164</b>



**GALIEN TOWNSHIP SCHOOLS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<b>Food Service Fund</b>	<b>1999 Building and Site Bonds-Debt Retirement</b>	<b>2005 School Refunding Bonds- Debt Retirement</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>				
Property taxes	\$ -	\$ 101,511	\$ 113,977	\$ 215,488
Local sources	18,590	-	-	18,590
State sources	3,965	-	-	3,965
Federal sources	39,862	-	-	39,862
Interdistrict sources	-	-	-	-
Earnings on investments	155	734	1,703	2,592
<b>Total Revenues</b>	<b>\$ 62,572</b>	<b>\$ 102,245</b>	<b>\$ 115,680</b>	<b>\$ 280,497</b>
<b>Expenditures</b>				
Current:				
Instruction	\$ -	\$ -	\$ -	\$ -
Supporting Services	82,866	-	-	82,866
Community services	-	-	-	-
Debt service				
Principal on long-term debt	-	95,000	20,000	115,000
Interest and fees on long-term debt	-	10,384	98,567	108,951
Capital outlay	-	-	-	-
Intergovernmental payments	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 82,866</b>	<b>\$ 105,384</b>	<b>\$ 118,567</b>	<b>\$ 306,817</b>
<b>Deficiency of Revenues under Expenditures</b>	<b>\$ (20,294)</b>	<b>\$ (3,139)</b>	<b>\$ (2,887)</b>	<b>\$ (26,320)</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	\$ 22,000	\$ -	\$ -	\$ 22,000
Operating transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 22,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,000</b>
<b>Net Change in Fund Balances</b>	<b>\$ 1,706</b>	<b>\$ (3,139)</b>	<b>\$ (2,887)</b>	<b>\$ (4,320)</b>
<b>Fund Balances - Beginning of year</b>	<b>3,519</b>	<b>13,580</b>	<b>61,385</b>	<b>78,484</b>
<b>Fund Balances - End of year</b>	<b>\$ 5,225</b>	<b>\$ 10,441</b>	<b>\$ 58,498</b>	<b>\$ 74,164</b>



To the Board Members and Management  
Of Galien Township Schools

In planning and performing our audit of the financial statements of Galien Township Schools (the "School District") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Galien Township School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

#### Preparation of Financial Statements

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the School District rests with the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the School District. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the School District's annual financial statements and notes to the financial statements in accordance with GAAP. The School District relies, in part on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the School District consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

Segregation of Duties

During our consideration and assessment of fraud risk, we noted that the School District may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that the same individual who is responsible for preparing bank reconciliations makes bank deposits and maintains the computerized general ledger, including the preparation and recording of journal entries. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While a lack of appropriate segregation of duties is a common occurrence in small organizations due to the limited number of employees, the School District should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the School District review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Board provide a greater review and supervision of accounting functions and procedures. We also recommend that in the future when the School District is adopting new or modifying existing financial policies that they consider the issue of fraud and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above are not material weaknesses.

Other Matters

In addition, we noted other matters involving the internal control and its operation that we would like to report to you.

Investment Policy

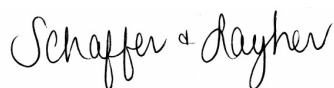
During the course of our audit it was noted that the School District has not updated its investment policy to address the reporting requirements of GASB Statement No. 40. GASB Statement No. 40 was designed to inform financial statement users about deposit and investment risks that could affect the Service's ability to provide services and meet its obligations as they become due.

We recommend the Board update their investment policy to address, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the School District's financial statements by GASB Statement No. 40.

Prior Year Comments

No prior year comments existed that have not been addressed.

This communication is intended solely for the information and use of management, the Board Members, and others within the Service, and is not intended to be and should not be used by anyone other than these specified parties.



Schaffer & Layher  
St. Joseph, Michigan

September 26, 2008